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C&C YACHTS LTD

# Annual Report for the year ended September 30, 1971

## holly owned subsidiaries

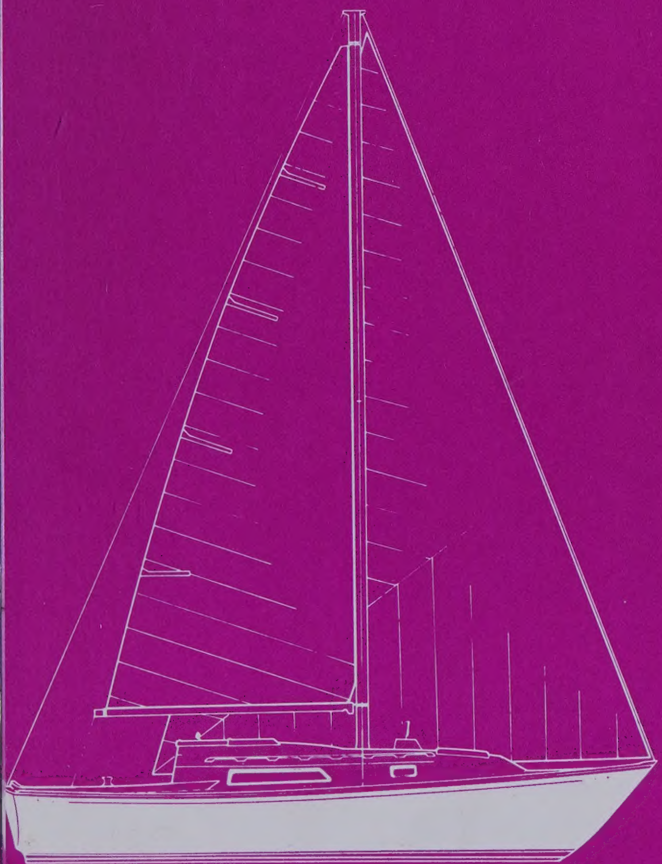
elleville Marine Yards Limited

ruckmann Manufacturing Limited

uthbertson & Cassian Limited

interhoeller Limited





&C 27 — is proving a great M.O.R.C. competitor

C&C YACHTS LTD

# Financial Report for the six months ended March 31, 1971

1st quarter

2nd quarter

## Consolidated statement of earnings

| | 1971 $ | 1970 $ |
|---|---|---|
| Sales | 1,500,039 | 1,849,587 |
| Cost of Sales | 1,129,518 | 1,365,953 |
| Gross Profit | 370,521 | 483,634 |
| Expenses—Selling | 117,430 | 76,395 |
| Administrative | 265,036 | 202,966 |
| | 382,466 | 279,361 |
| Earnings (Loss) before income taxes | (11,945) | 204,273 |
| Provision for (Recovery of) income taxes | ( 6,380) | 106,222 |
| Net Earnings (loss) for the period | ( 5,565) | 98,051 |

## Consolidated statement of source and use of working capital

| | 1971 $ | 1970 $ |
|---|---|---|
| **Source of working capital** | | |
| Net earnings (loss) for the period | (5,565) | 98,051 |
| Items not affecting working capital — | | |
| Depreciation | 81,559 | 58,070 |
| Deferred income taxes | — | 6,500 |
| Provided from operations | 75,994 | 162,621 |
| Issue of common shares for cash | — | 1,464,790 |
| Deferral of income taxes previously included in current liabilities | — | 11,250 |
| | 75,994 | 1,638,661 |
| **Use of working capital** | | |
| Fixed assets | 200,941 | 215,541 |
| 7½ % mortgage instalments | 1,248 | 1,248 |
| Financing expenses—net of income tax | — | 30,769 |
| Payment of notes issued in connection with the acquisition of shares in subsidiary companies | — | 488,412 |
| | 202,189 | 735,970 |
| Increase (Decrease) in Working Capital | (126,195) | 902,691 |

## To the shareholders

Due to the late spring, shipments during the second quarter were less than anticipated causing a corresponding increase in finished goods inventory. Consequently, our sales volume for the first half is considerably less than that for the same period a year ago. However, shipments already made in the third quarter have been very heavy.

Second quarter operations have shown improved earnings over the previous quarter, and confirmed orders in hand indicate sales for the year will be approximately $4,500,000.

Consequently, with two thirds of our expected sales coming in the last half of the year we expect that your company will show considerably increased earnings.

Ian F. Morch, P.Eng.,

Chairman and President

Port Credit, Ontario

# C&C Yachts Limited
10 Front Street South Port Credit Ontario



## WHOLLY OWNED SUBSIDIARIES

Belleville Marine Yards Limited
Cuthbertson & Cassian Limited
Bruckmann Manufacturing Limited
Hinterhoeller Ltd.

## DIRECTORS & OFFICERS

| | |
|---|---|
| Taylor, Alan F B. | Chairman of the Board and Director |
| Morch, Ian F. | President and Director |
| Bruckmann, Erich K L. | Vice-President and Director |
| Cuthbertson, George H. | Vice-President and Director |
| Hinterhoeller, George A. | Vice-President and Director |
| Lewis, Clifford W. | Director |
| Sale, Robert R. | Director |
| Brinsmead, Gordon W. | Vice-President |
| Gray, John S. | Secretary-Treasurer |

## AUDITORS

Messrs. McDonald, Currie & Co.,
Chartered Accountants 120 Adelaide St. W., Toronto, Ontario

## LEGAL COUNSEL

Messrs. Miller, Thomson, Hicks, Sedgewick, Lewis & Healy
7 King St. E., Toronto, Ontario

## TRANSFER AGENT & REGISTRAR

Royal Trust Company, Toronto & Montreal

# Report of the president to the shareholders.

The consolidated financial statements of C & C Yachts Limited and its subsidiaries for the year end September 30, 1971, together with the report on operations and the report of the Auditors are submitted.

**Financials**

| SUMMARY | | | |
|---|---|---|---|
| Item | 1970/71 | 1969/70 | % Increase |
| Sales | **$5,174,734** | $3,894,127 | **33** |
| Net Earnings/Share | **20¢** | 7¢ | **187** |
| Cash Flow/Share | **37¢** | 21¢ | **76** |
| Work Capital Ratio | **2:1** | 2:1 | **0** |

Sales were very satisfactory, improving 33% over the previous year. This increase was attributable to a 27% betterment in production boat sales, nearly 2¼ times as many custom boat sales, more outside design and increased activity through the company's retail outlet.

Gross profit improved both in absolute and percentage terms while expenses expressed as a percentage of sales decreased, resulting in substantially improved earnings both before and after tax. Net earnings after all normal operating charges amounted to $191,966 or 20¢/share and cash flow from operations was 37¢/share. This compares to 7¢ and 21¢ per share respectively for the previous comparable fiscal period.

Working capital ratio remains at 2:1, while long term liabilities have increased. The latter represents term bank borrowings for new plant facilities which are still under construction and are 80% completed as of October 30, 1971. The depreciated value of fixed assets has increased from $809,507 to $1,194,767 most of which is due to plant expansion.

The 10% surtax on goods entering the United States became effective on August 15/71. However, since shipments are lower during this period and it affects only six weeks of the fiscal period, the resulting extra costs are not material, but the very existence of the surtax will tend to reduce margins since a substantial portion of this burden has to be absorbed.

**Reorganization of Production Facilities**

An analysis of the operations indicated that the production allocated to the Belleville Division, consisting for the most part of older designs which employed much less production tooling, would not produce the same return as the newer models using a higher degree of tooling under an environment designed for the purposes.

Furthermore, the study showed that in terms of quantity production the Belleville plant could not be economically converted, nor could it be used effectively for specific production as the balance between molding and assembly floor space could not be met; coupled with these factors was a waning demand for the older designs.

Consequently, when viewed with the advantages of centralized production with its attendant benefits of economies and efficiencies of scale and management, a plan of consolidation evolved.

Management concluded that a maximum plant expansion at Niagara of approximately 40,000 square feet will produce the desired operating results and improved earnings. This addition will double the capacity of Niagara from $3 to $6 million, which results in a net gain of $1¾ million after allowing for the closing of the Belleville Division.

All production will therefore be under one roof, and when combined with the potential output of the Oakville Custom Boat Division, C & C Yachts' capacity is approximately $7.5 million, depending on product mix.

**Corporate Reorganization**

It is intended to amalgamate the three subsidiaries Hinterhoeller Limited, Bruckmann Manufacturing Limited, Cuthbertson & Cassian Limited, with the result that the amalgamated company will carry on manufacturing operations. Belleville Marine Yards Ltd. changed its name to C & C Yacht Sales Ontario Limited, and will carry on the retail yacht sales operation in its present Oakville location.

**Marketing & Sales**

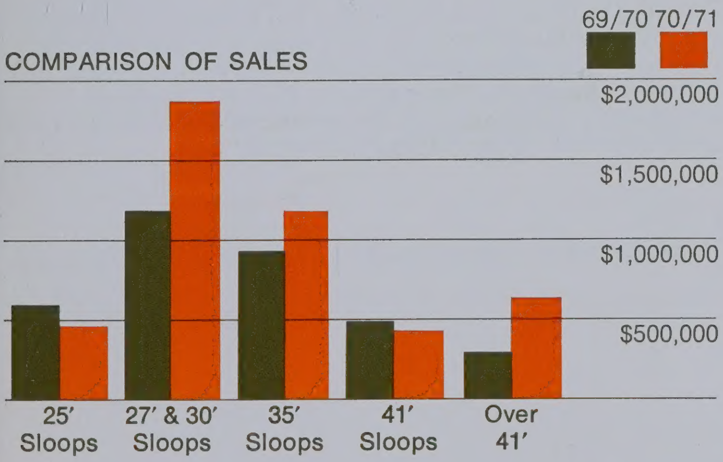
Our dealer network has again been enlarged in the United States from 23 to 32. Some of these additions are on the south-east and west coast where the buying cycle tends to reduce our usual highly cyclical sales. In addition we have attempted to better service and improve our existing network of distribution.

The results are gratifying, especially when expressed in a sales increase of 33% over the previous comparable period, which also includes increased national sales of about the same percentage magnitude. On an overall basis, your company is 75% export oriented to the United States.

Consequently such factors as the floating dollar and the 10% surtax play a significant part in our operations. This surtax obviously makes us less competitive vis a vis U.S. boat builders, but we believe the demand for our high quality product is sufficiently strong that sales volume will not be affected in the immediate future.

Product line rationalization and the continuous introduction of new designs on a planned basis serves to create a good impact. Our current 1972 production line spans a range from $5,000 to $35,000 in six designs, and our limited editions start at $80,000 and continue to $160,000 in four models with the gap between currently bridged by special designs for racing and cruising.

COMPARISON OF SALES




**Prospects**

We are restructuring our franchise system to make it more attractive and are restudying the potential earnings to determine how far this program should be pursued. The industrial product development program did not work out and has been discontinued, and our efforts are now being devoted to the primary task of designing, building and selling boats.

Since C & C Yachts is heavily oriented to exporting to the U.S., President Nixon's economic controls which were designed to improve employment, curb inflation and improve the international balance of payments is significant. These measures should stimulate the U.S. economy and should increase the demand for our products.

Measures of the immediate future are our dealer commitments for production boats and orders in hand for custom boats, both of which has never been higher. Another measure: present day retail activity is high in both Canada and the U.S.; consequently we believe our sales for this coming year will reach at least $6,000,000.

The consolidated production facilities at Niagara, offering greater capacity and certain economies coupled with more centralized management and the above sales forecast, should see earnings once again improve.

We appreciate the continued support of our employees and shareholders which make C & C Yachts possible.

Submitted by Ian F. Morch, P.Eng., President.

# Consolidated balance sheet as at September 30, 1971

| ASSETS | 1971 | 1970 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 49,049 | $ 105,860 |
| Accounts receivable | 590,734 | 472,156 |
| Inventories—at the lower of cost or net realizable value (note 1) | 928,148 | 713,635 |
| Income taxes recoverable | — | 64,404 |
| Prepaid expenses | 23,869 | 19,767 |
| | 1,591,800 | 1,375,822 |
| INVESTMENT — at cost (quoted value $8,300; 1970 — $12,200) | 100 | 100 |
| FIXED ASSETS (note 2) | 1,194,767 | 809,507 |
| EXCESS OF COST OF SHARES IN SUBSIDIARY COMPANIES OVER NET BOOK VALUE AT DATE OF ACQUISITION | 2,492,992 | 2,492,992 |
| | $5,279,659 | $4,678,421 |

## AUDITORS' REPORT TO THE SHAREHOLDERS

November 5, 1971

We have examined the consolidated balance sheet of C & C Yachts Limited and subsidiary companies as at September 30, 1971 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

McDonald, Currie & Co. Chartered Accountants

| LIABILITIES | 1971 | 1970 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Bank advances — secured (note 3) | $ 50,640 | $ 355,427 |
| Accounts payable and accrued liabilities | 551,844 | 255,768 |
| Deposits from customers | 98,731 | 88,235 |
| Income taxes | 93,833 | — |
| | 795,048 | 699,430 |
| LONG-TERM DEBT | | |
| Bank loan — secured (note 3) | 335,000 | — |
| 7½ % mortgage loan due 1979 less current instalments of $2,496 | 15,808 | 18,304 |
| | 350,808 | 18,304 |
| DEFERRED INCOME TAXES | 38,400 | 57,250 |
| | $1,184,256 | 774,984 |

| SHAREHOLDERS' EQUITY | | |
|---|---|---|
| CAPITAL STOCK | | |
| Authorized — 2,000,000 shares without par value | | |
| Issued and fully paid — 950,000 shares | $3,864,770 | 3,864,770 |
| RETAINED EARNINGS | 230,633 | 38,667 |
| | 4,095,403 | 3,903,437 |
| | $5,279,659 | $4,678,421 |

Signed on behalf of the Board

A. Saylor Director

Ian J. Monch Director

**C&C Yachts Limited and subsidiary companies**

# Consolidated statements of earnings and retained earnings For the year ended September 30, 1971

| STATEMENT OF EARNINGS | 1971 | 1970 |
|---|---|---|
| SALES | $5,174,734 | $3,894,127 |
| COST OF SALES | 4,116,856 | 3,123,117 |
| GROSS PROFIT | 1,057,878 | 771,010 |
| SELLING AND ADMINISTRATIVE EXPENSES | 757,232 | 618,344 |
| | 300,646 | 152,666 |
| PROVISION FOR INCOME TAXES | 108,680 | 74,461 |
| EARNINGS BEFORE EXTRAORDINARY ITEM | 191,966 | 78,205 |
| LOSS ON REVALUATION, NET OF INCOME TAX | — | 8,769 |
| NET EARNINGS FOR THE YEAR | 191,966 | 69,436 |
| EARNINGS PER SHARE BASED ON THE SHARES OUTSTANDING AT SEPTEMBER 30, 1971 | | |
| Earnings before extraordinary item | 20 cents | 8 cents |
| Net earnings for the year | 20 cents | 7 cents |

| STATEMENT OF RETAINED EARNINGS | | |
|---|---|---|
| BALANCE — BEGINNING OF YEAR | $ 38,667 | — |
| Net earnings for the year | 191,966 | $ 69,436 |
| Financing expenses — net of income tax of $35,500 | — | 30,769 |
| BALANCE — END OF YEAR | $ 230,633 | $ 38,667 |

C&C Yachts Limited and subsidiary companies

# Consolidated statement of source and use of working capital
# For the year ended September 30, 1971

| SOURCE OF WORKING CAPITAL | 1971 | 1970 |
|---|---|---|
| Net earnings for the year | $ 191,966 | $ 69,436 |
| Items not affecting working capital — | | |
| Depreciation | 182,103 | 116,141 |
| Deferred income taxes | (18,850) | 13,000 |
| Provided from operations | 355,219 | 198,577 |
| Bank loan | 335,000 | — |
| Issue of shares for cash | — | 1,464,790 |
| Deferral of income taxes previously included in current liabilities | — | 22,500 |
| | 690,219 | 1,685,867 |
| USE OF WORKING CAPITAL | | |
| Purchase of fixed assets | 567,363 | 391,935 |
| 7½ % mortgage instalments | 2,496 | 2,496 |
| Financing expenses — net of income tax | — | 30,769 |
| Payment of notes issued in connection with the acquisition of shares in subsidiary companies | — | 488,412 |
| | 569,859 | 913,612 |
| INCREASE IN WORKING CAPITAL | 120,360 | 772,255 |
| WORKING CAPITAL — BEGINNING OF YEAR | 676,392 | — |
| Less: Working capital deficiency of subsidiary companies at date of acquisition | — | 95,863 |
| WORKING CAPITAL — END OF YEAR | $ 796,752 | $ 676,392 |

# Notes to consolidated financial statements

## 1. INVENTORIES

| | 1971 | 1970 |
|---|---|---|
| Inventories are classified as follows: | | |
| Finished yachts | $ 241,033 | $ 80,193 |
| Yachts in process | 147,804 | 197,424 |
| Raw materials and supplies | 539,311 | 436,018 |
| | $ 928,148 | $ 713,635 |

## 2. FIXED ASSETS AND CAPITAL COMMITMENTS

Fixed assets and related accumulated depreciation comprise the following:

| | 1971 | | | 1970 |
|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net | Net |
| Land | $ 41,752 | — | $ 41,752 | $ 21,652 |
| Buildings | 639,923 | $ 120,011 | 519,912 | 482,475 |
| Machinery and equipment | 745,129 | 367,300 | 377,829 | 305,380 |
| Construction in progress | 255,274 | — | 255,274 | — |
| | $1,682,078 | $ 487,311 | $1,194,767 | $ 809,507 |

The cost to complete construction in progress is estimated to be $97,000.

## 3. BANK LOAN AND ADVANCES

Bank loan and advances are secured by a general assignment of book debts and a floating charge debenture over the assets of the company and its subsidiary companies.

## 4. FOREIGN EXCHANGE

Assets and liabilities in United States dollars have been converted at the rate of exchange prevailing at September 30, 1971.

## 5. STATUTORY INFORMATION

The following amounts are included in the statement of earnings:

| | 1971 | 1970 |
|---|---|---|
| Remuneration paid by the company and its subsidiary companies to the directors and senior officers (as defined by The Business Corporations Act, 1970) | $ 119,542 | $ 128,500 |
| Depreciation | 182,103 | 116,141 |

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